

### Essential Energy Networks 2024-29 Distribution Determination - Liability and Property Insurance Premiums

#### Summary

icare Insurance for NSW (IfNSW), as administrator of the Treasury Managed Fund (TMF), serves as self-insurance and re-insurance provider to Essential Energy. The TMF provides general liability insurance which includes professional liability and environmental liability. The TMF also provides property, motor and miscellaneous cover. Miscellaneous includes travel, fidelity, personal accident and personal property covers.

█ and D&O continue to be insured in the commercial market due to risk appetite of Essential Energy, and are not discussed in this paper.

#### Insurance contributions for FY23/24

Year	Liability	Property	Motor	Miscellaneous
FY 23/24	█	█	█	█

icare anticipates step changes to the liability and property covers only. Motor and Miscellaneous covers are forecast at this time to move by 3% or less per year or in line with CPI.

Based on current information, icare forecasts a total █ increase to Essential Energy's insurance contributions from the FY21/22 costs over the next 5 years, or an average increase of █ per year.

This estimated cost increase is primarily driven by the commercial cost and availability of reinsurance to cover associated risks and increased frequency and severity of severe weather events, notably, in Essential Energy's case, increased bushfire and flood risk. However, these costs are materially less than icare anticipates Essential Energy would incur through commercial insurance placements.

#### Forecast

Year	Estimated Essential Energy TMF Liability* contribution	Step Change	Estimated Essential Energy TMF Property** contribution	Step Change
FY23/24	█	█	█	█
FY24/25	█	█	█	█
FY25/26	█	█	█	█
FY26/27	█	█	█	█
FY27/28	█	█	█	█
FY28/29	█	█	█	█

The forecast total [REDACTED] increase. This is primarily driven by a [REDACTED] increase for liability from:

- hardening commercial reinsurance market, with insurance premiums for general liability premiums estimated to increase 15-20% YOY
- assumed average increases in claims costs and claims handling expenses:
  - claims experience from recent weather events
  - increased frequency and severity of severe weather events, including bushfire and flood
  - increased commercial and legal exposure to 'failure to supply' claims
  - construction supplies and general economic inflationary factors



The second largest increase is for property. For property, the forecast total of a [REDACTED] increase over the period reflects similar pressures:

- hardening commercial reinsurance market, with insurance premiums for property premiums, particular CAT cover estimated to increase 20%-30% YOY
- assumed average increases in claims costs and claims handling expenses:
  - increased frequency and severity of severe weather events, including bushfire and flood
  - construction supplies and general economic inflationary factors
- recent property claims experience from weather events worse than anticipated. It is noted that Essential Energy depot and zone substation assets in the Lismore area were subject to severe flooding in February/March 2022, with insured losses to date currently estimated at [REDACTED]

The property forecast anticipates an initial step change increase in FY24/25 coming out of a 2-year long term agreement and in response to flood claim activity. In the following years, icare expects smaller increases to reflect ongoing reinsurance cost pressures and increasing frequency and severity of weather events.

As a TMF member, Essential Energy is largely protected for all coverage lines from sharp short-term pricing increases relative to market movements and insurer coverage withdrawals, even if there are material claims losses, and remains guaranteed continuity and same conditions of cover.

\*TMF Liability includes coverage typically provided through multiple commercial insurance products, including, but not limited to: Public & Products Liability, Environmental Impairment Liability, Professional Indemnity, Marine Liability and Aviation Liability. TMF Liability also provides Directors and Officer Liability and [REDACTED] coverage but such cover is not currently afforded, at the option of Essential Energy.

\*\*TMF Property includes coverage typically provided through multiple commercial insurance products, including, but not limited to: Industrial Special Risks (including Consequential Loss), Marine Cargo, Marine Hull, Plant & Equipment and Aircraft Hull

## Commercial bushfire liability insurance benchmarking

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It is increasing difficult to obtain capacity in the commercial market at reasonable economic and commercial terms as capacity tightens, insurers including international insurers have severely restricted the amount of capacity that they can provide. This has led to an increase in premiums and a narrowing of the scope of available bushfire liability insurance (lower limits, aggregated limits, broader exclusions, increased deductibles).

The increasing severity and frequency of extreme weather events in the last 10 years has resulted in larger and more frequent levels of Australian and international bushfire liability claims, and this in turn has led to a material increase in bushfire liability premiums. A perception has developed amongst key insurers that bushfires ignited by Australian electricity network assets are effectively subject to a 'strict liability' claims regime, where potential litigation costs leave little option but for insurers to settle claims. Those with appetite to underwrite electricity network assets apply rigours limit management practices, lower limits, aggregated instead of per occurrence limits and considerable self-insured retentions imposed.

The bushfire season of 2019/20 had a significant impact across numerous TMF agencies and more generally for insurers (though not notable for network-initiated fires). Our premium step change is to ensure that we cater for this increased exposure potential and collect sufficient premium to cover any potential future bushfire losses at cost.




## Commercial Property insurance benchmarking

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Similarly, it is also difficult to obtain capacity in the commercial market at reasonable economic and commercial terms as capacity tightens and cover is restricted to assets and sites exposed to natural disasters including bushfire and flood. This has led to rigorous risk selection, ensuring their portfolios do not have significant aggregated risks in bushfire and flood zone regions, increase in premiums and narrowing of scope of cover.

Increased exposure to bushfire and flood risks, with increased severity and frequency of extreme weather events in the last 10 years continues as seen insurers and reinsurers affected by claims and in turn has led to a material increase in property premiums. Property limits are provided on co-insurance basis with other insurers and strong reliance on reinsurance support, with strong appetite for low net retentions. Putting together a robust and cost-effective property tower can be challenging.



Additionally, the recent flood claim of [REDACTED] clearly demonstrates a tangible exposure and potential for future losses, in line with industry expectations around increasing catastrophic risks. This has been considered for the future forecasts.

## TMF Membership

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icare manages the TMF on behalf of the NSW Treasury. The TMF is not insurance in the traditional sense; it is a statutory self-insurance scheme created by the NSW government to

insure and, for some coverage, reinsure, NSW government agency risk. It provides comprehensive protection to all NSW government agencies. The governing act is *NSW Self Insurance Corporation Act 2004* (the Act).

Treasury Circular TC20-05, which came into effect 3 November 2020, requires all government agencies to be members of TMF. Exemptions can be sought and need approval from Treasury, where a commercial offering can be demonstrated to offer the agency an improved position regarding:

- Value for money;
- Minimum level of coverage;
- Compliance with the State's risk appetite; and
- Public policy.

In 2021, the NSW Treasury, icare and Essentially Energy reviewed Essential Energy's membership in the TMF against the above criteria.

[REDACTED]

While Essential Energy had developed a sophisticated and effective commercial program, it was identified that an evolving insurance market could adversely impact the effectiveness of their programme due to severe market premium increases and coverage reductions. In particular, Essential Energy identified that any further 'hardening' of the bushfire liability insurance market (for example, as a result of a major new claim) could render its bushfire risk effectively uninsurable.

Through membership in the TMF, it is anticipated that Essential Energy has materially mitigated and stabilised the immediate and ongoing pressure on its insurance premiums, particularly for bushfire liability.

[REDACTED]

Minimum Level of Coverage:

The general cover of the TMF is broad, with limited exclusions and unlimited cover. It is also flexible enough to tailor bespoke programs, as we have provided to Essential Energy to ensure competitive pricing.

[REDACTED] Membership of the TMF protects against erosion of coverage or dramatic premium increases.

[REDACTED]

[REDACTED]

Further, while conditions of cover are narrowing commercially (though higher retentions, reduced coverage, etc) the TMF has been broadly stable in the cover provided.

*Compliance with the State risk appetite*

In the absence of compelling reasons to exempt eligible organisations from TMF membership, it is the NSW government's appetite for all risks to be placed through the TMF. The scheme is designed to indemnify all liability risks including large scale insurance losses such as natural disasters, which we take a long -term view and smooth out the impact over time, the aim of premiums (described as 'contributions' for the TMF, reflecting the self-insurance arrangements and the flexible nature of cover) is to remove volatility and provide consistency and transparency to TMF agencies.

[REDACTED]

**Process and availability of further review**

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The TMF contributions for Essential Energy are determined annually in March for the forthcoming financial year, considering:

- Claims experience for at least the last 8 years
- Declaration of risks and exposures conducted in August - September
- December actuarial valuations

icare is happy to provide any further information required by the AER or Essential Energy; or contribute to any consultation.